

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 DODE-00 PA-01 L-03 H-01 AGRE-00
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-----013613 080823Z /20

R 080548Z MAR 78
FM AMEMBASSY RANGOON
TO SECSTATE WASHDC 5029

C O N F I D E N T I A L SECTION 1 OF 2 RANGOON 0811

E.O. 11652: GDS
TAGS: EAID, EFIN, BM
SUBJECT: VISIT OF DAS HEGINBOTHAM -- MEMORANDUM OF CONVERSATION

1. THERE FOLLOWS A MEMCON OF A NEARLY TWO HOUR DISCUSSION ON MARCH 7, 1978 BETWEEN DAS ERLAND HEGINBOTHAM; GUB DEPUTY MINISTER OF FINANCE AND PLANNING, DR. MAUNG SHEIN; CENTRAL BANK DIRECTOR, U AYE HLAING; DIRECTOR GENERAL, FOREIGN RELATIONS DEPARTMENT, MINISTRY OF FINANCE AND PLANNING, U THEIN MYINT; AMBASSADOR BEAN AND DCM BARTLEY. THE MEMCON WAS DRAFTED BY MR. HEGINBOTHAM BUT HE HAS NOT SEEN IT IN FINAL FORM (ONLY MINOR CHANGES WERE MADE IN HIS DRAFT.)

2. FOLLOWING EXCHANGE OF GREETINGS, MAUNG SHEIN REFERRED TO DISCUSSIONS IN THE GOVERNMENT AND AT THE PYITHU HLUTTAW OF THE POLICY OF "MUTUALLY BENEFICIAL ECONOMIC COOPERATION" (MBEC) OR "JOINT VENTURES" WITH FOREIGN GOVERNMENT OR PRIVATE ENTERPRISES. HE INDICATED THE GOVERNMENT IS UNDER SOME PRESSURE FROM MEMBERS OF THE ASSEMBLY TO DEFINE MORE CLEARLY AND TO MOVE FORWARD ON IMPLEMENTING THIS POLICY. TWO CRITERIA ARE CONTROLLING: THAT THE SECTORS INVOLVE (1) LARGE CAPITAL INVESTMENTS AND (2) IMPORTANT TECHNOLOGY NOT AVAILABLE DOMESTICALLY. AMONG SECTORS OF HIGH PRIORITY HE IDENTIFIED PETROCHEMICALS AS THE MOST
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IMPORTANT, AND ALSO MENTIONED PULP AND PAPER, IRON AND STEEL (AS WELL AS COAL DEVELOPMENT ASSOCIATED THEREWITH), OFFSHORE OIL AND, IN TIMBER, HE REFERRED TO NEGOTIATIONS WITH SCANDINAVIAN INTERESTS FOR POSSIBLE FURNITURE PRODUCTION. HE NOTED THAT ASSEMBLY MEMBERS PRESSED FOR PROGRAMS ON PROJECTS OF SPECIAL INTEREST TO THE RESOURCES IN THEIR DISTRICTS.

3. HE DID NOT SEE THE NEED FOR ENABLING LEGISLATION, BUT FELT THE GOVERNMENT SHOULD APPROACH MBEC ON A CASE-BY-CASE BASIS. HE EXPRESSED RELUCTANCE TO START THE PROCESS WITH FURTHER FEASIBILITY STUDIES, AS THAT HAD NOT IN THE PAST LED TO PRACTICAL RESULTS. HE NOTED THAT FEASIBILITY STUDIES ALREADY EXIST IN MOST OF THESE SECTORS (ALTHOUGH IT WAS CLEAR THAT SEVERAL WERE QUITE OLD AND COST ASPECTS WOULD REQUIRE UPDATING).

4. PARENTHETICALLY, HE MENTIONED ALSO THAT BURMA'S HYDROELECTRIC POTENTIAL ALONG ITS BORDERS OFFERED POSSIBILITIES FOR PRODUCTION AND EXPORT OF ELECTRICITY WHICH MIGHT HAVE POTENTIAL FOR JOINT VENTURES.

5. MAUNG SHEIN REFERRED TO VISTS WHICH BURMESE OFFICIALS HAD BEGUN TO MAKE TO VARIOUS DONOR COUNTRIES TO EXPLORE POSSIBLE MBEC INTERESTS. HE DID NOT EXCLUDE THE POSSIBILITY OF A VISIT TO THE U.S. BUT GAVE NO INDICATION IT IS IN THEIR PLANNING AT THIS STAGE. IN RESPONSE TO A QUESTION FROM MAUNG SHEIN, WE SUGGESTED HE PROVIDE THE EMBASSY WITH PROSPECTI ON POSSIBLE MBEC ACTIVITIES THAT COULD BE MADE AVAILABLE TO POTENTIAL U.S. INVESTORS.

6. WITH RESPECT TO GOVERNMENTAL ECONOMIC ASSISTANCE TO BURMA, MAUNG SHEIN REFERRED TO THE GOVERNMENT'S "SHOPPING LIST" PRESENTED RECENTLY TO THE CONSULTATIVE GROUP. THE WORLD BANK, HE SAID, HAD ENDORSED PRIORITY ATTENTION TO TWO GOALS: EXPANSION OF BURMA'S AID-ABSORPTIVE AND DEBT-SERVICING
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CAPACITIES. THESE PRIORITIES INCREASED THE NEED FOR EXPANDING BURMA'S EXPORT CAPABILITIES. TWO ASPECTS WOULD RECEIVE PRIORITY: INCREASING AGRICULTURAL YIELDS THROUGH INTENSIFICATION, AND INCREASING CAPACITY UTILIZATION OF EXISTING PRODUCTIVE FACILITIES. IN BOTH ASPECTS BURMA WOULD REQUIRE A HIGH PROPORTION OF LOCAL COST FINANCING. FOR THIS REASON THE WORLD BANK HAS BEEN ENCOURAGING GREATER RECOURSE TO DONOR PROGRAM LENDING TO GENERATE ADDITIONAL LOCAL CURRENCY RESOURCES.

7. WE ASKED IN WHAT SECTORS THERE MIGHT BE INTEREST IN POSSIBLE U.S. PROJECT ASSISTANCE FOR BURMA, IF IT SHOULD PROVE POSSIBLE TO OBTAIN CONGRESSIONAL AND U.S. GOVERNMENT AGENCY AGREEMENT ON SUCH AID. MAUNG SHEIN INDICATED FIRST PRIORITY WOULD ATTACH TO THE AGRICULTURAL SECTOR, BUT HE ALSO STRESSED THE HIGH VALUE THE GOVERNMENT ATTACHES TO THE DEVELOPMENT OF THE RANGOON-MANDALAY ROAD AS ESSENTIAL FOR OPENING UPPER BURMA TO AGRICULTURAL DEVELOPMENT AND MARKETING. HE RESPONDED FAVORABLY TO THE POSSIBILITY OF U.S. ASSISTANCE BEING CHanneled TO PROJECTS BEING ADMINISTERED BY OTHER DONOR AGENCIES SUCH AS THE WORLD BANK AND ADB. WE DISCUSSED THE POTENTIAL ADVANTAGES IN TERMS OF SPEED AND EASE OF IMPLEMENTATION.

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 DODE-00 PA-01 AGRE-00 L-03 H-01 /091 W
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R 080548Z MAR 78
FM AMEMBASSY RANGOON
TO SECSTATE WASHDC 5030

C O N F I D E N T I A L SECTION 2 OF 2 RANGOON 0811

8. WE ASKED IF THE GOVERNMENT COULD CONSIDER RELEASE OF ACCUMULATED U.S. HOLDINGS OF KYAT FOR ATTRIBUTION TO DEVELOPMENT PROJECTS WHICH THE U.S. MIGHT SUPPORT. MAUNG SHEIN STATED, "WE HAVE BEEN CONSIDERING WAYS TO DEVELOP CLOSER RELATIONS BETWEEN OUR COUNTRIES." IN THAT CONNECTION, HE ACKNOWLEDGED THAT THE GOVERNMENT HAD BEEN STUDYING WITH THE BANK AND THE FINANCE MINISTRY WHAT MIGHT BE DONE TO OPEN DISCUSSIONS FOR DEVELOPMENTAL USE OF U.S. KYAT HOLDINGS. HE IDENTIFIED AS ONE OVERRIDING CONSIDERATION, HOWEVER, THAT SUCH USES WOULD HAVE TO BE CONSISTENT WITH THE GOVERNMENT'S MONETARY CONSTRAINTS AIMED AT CONTROLLING INFLATION.

9. AS TO POSSIBLE BURMESE INTEREST IN U.S. AGRICULTURAL COMMODITIES, AYE HLAING DESCRIBED GOVERNMENT CONCERNS THAT UNDER PRESENT COMPARATIVE ADVANTAGE DOMESTIC COTTON PRODUCTION IS NOT REALLY ECONOMICALLY ADVANTAGEOUS, AND THAT THE DRY AREAS OF BURMA HAD A GREATER COMPARATIVE ADVANTAGE FOR GROUNDNUTS, PULSES AND SIMILAR FOOD CROPS. THEY HAD RELUCTANTLY CONCLUDED THAT THEY SHOULD ALLOCATE SOME OF THEIR SCARCE FOREIGN EXCHANGE RESOURCES FOR RAW COTTON IMPORTS, IN ORDER TO USE TEXTILE PRODUCTION CAPABILITY MORE FULLY, TO INCREASE DOMESTICALLY AVAILABLE CONSUMER GOODS, AND THEREBY REDUCE INFLATION. THEY HAD IMPORTED SOME COTTON COMMERCIALLY IN THE LAST TWO YEARS AND SAW DISCERNIBLE PRICE IMPROVEMENTS FROM THIS EFFORT. THEY MENTIONED A FIGURE OF
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ABOUT 80 MILLION KYATS PER YEAR OF RAW COTTON IMPORTS, MAINLY FROM PAKISTAN. ALTHOUGH THE MINISTRY OF INDUSTRY IS MAKING SERIOUS EFFORTS TO DEVELOP SOME MINIMUM LEVEL OF COTTON PRODUCTION TO ASSURE SOME DEOMESTIC SUPPLY, THEY ANTICIPATED THAT IT WOULD NOT BE PRACTICAL OR ECONOMICAL TO AVOID CONTINUING COTTON IMPORTS. THEY WERE THEREFORE RECEPTIVE TO IMPORTS OF COTTON THROUGH PL 480. MAUNG SHEIN EXPRESSED RELUCTANCT TO CONSIDER INCLUDING WHEAT AND EDIBLE OILS UNDER PL-480. THE GOVERNMENT WAS GREATLY RESISTANT TO USING LOAN FUNDS FOR ONE-TIME CONSUMPTION AND WOULD PREFER TO USE SUCH FUNDS FOR GOODS WHICH WOULD EITHER INCREASE PRODUCTIVE CAPACITY OR THE UTILIZATION THEREOF. HE SAID THEY WERE TALKING WITH OTHER DONORS ABOUT OBTAINING EDIBLE OILS ON A GRANT BASIS.

10. RETURNING TO THE QUESTION OF POSSIBLE CHANNELS AND MCENANISMS FOR ASSISTANCE, WE ASKED WHETHER MAUNG SHEIN WOULD SEE ANY PROBLEM WITH OUR DISCUSSING WITH THE WORLD BANK AND ADB PROJECTS IN WHICH THESE ORGANIZATIONS MIGHT WELCOME SUPPLEMENTAL FINANCING FROM OTHER SOURCES SUCH AS THE U.S. MAUNG SHEIN ACCEPTED THIS IDEA AND IN FACT MENTIONED THAT THESE INSTITUTIONS HAD EXPRESSED THEIR DESIRE TO OBTAIN ADDITIONAL FINANCING FROM OTHER DONOR SOURCES IN CERTAIN PROJECT AREAS.

11. WE ASKED IF THE BURMESE GOVERNMENT WOULD ALSO HAVE INTEREST IN U.S. TECHNICAL ASSISTANCE AND TRAINING OPPORTUNITIES. MAUNG SHEIN AGREED TO CONSIDER THIS QUESTION AND PROVIDE ANY RESPONSE DIRECTLY TO THE EMBASSY. WE ALSO DESCRIBED BRIEFLY THE AID PROGRAM OF REIMBURSABLE TECHNICAL ASSISTANCE AND MENTIONED THAT THE REGIONAL REPRESENTATIVE FOR THIS PROGRAM MIGHT VISIT BURMA AT SOME FUTURE DATE. THEY EXPRESSED INTEREST IN LEARNING MORE ABOUT THIS PROGRAM.

12. WE CONCLUDED THE MEETING BY PROMISING THAT MR. HEGINBOTHAM
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WOULD RETURN TO WASHINGTON, FOLLOW UP ON DISCUSSIONS WITH AID, OTHER U.S. GOVERNMENT AGENCIES AND THE WORLD BANK, AND PROVIDE FURTHER INFORMATION ON THE SUBJECTS DISCUSSED. IN ADDITION, WE WOULD CONSIDER THE APPROPRIATE NECESSARY STEPS FOR FOLLOW UP AND THE POSSIBILITY AND TIMING FOR A VISIT BY AID REPRESENTATIVES. MAUNG SHEIN EXPRESSED VISIBLE INTEREST IN THE OPPORTUNITY TO MOVE THE DISCUSSIONS AWAY FROM GENERALITIES TO MORE SPECIFIC STEPS TO IMPLEMENTING ECONOMIC COOPERATION. HE EXPRESSED HOPE FOR ACHIEVING AN OPENING IN SOME SPECIFIC AREA OF COOPERATION SO THE THE DOOR COULD BE OPENED WIDER TO FURTHER AREAS OF US/BURMESE DISCUSSIONS AND RELATIONS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: VISITS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978RANGOO00811
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780104-0039
Format: TEL
From: RANGOON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780393/aaaadajw.tel
Line Count: 221
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 17c097cb-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: ONLY
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3404145
Secure: OPEN
Status: NATIVE
Subject: VISIT OF DAS HEGINBOTHAM---MEMORANDUM OF CONVERSATION
TAGS: EAID, EFIN, BM, (HEGINBOTHAM, DAS ERLAND)
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/17c097cb-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014